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CONSULTING GROUP

Risk Mitigation Implementation Analysis & Recommendations Exchange Board Meeting

May 8, 2012

Risk Adjustment

Parameters:

1. Permanent program
2. Must determine risk of plans
3. Transfer excess payments from plans with lower risk enrollees to plans with higher risk enrollees

Key Considerations:

1. Very complicated to administer for state and carriers. Carriers prefer national model
2. Program untested on populations under the age of 65
3. Concerns about security of information (distributed model)
4. Study mandated by 2012 Exchange Bill
5. Can take program back under state control at a future date
6. No significant difference in results from different risk adjustment models

Options:

1. Federal Government can Administer
2. State Government can Administer
   a. Use Federal Model (2012 Exchange Bill says to "strongly consider")
   b. Develop state-specific model
      – State-specific model must be approved by HHS

Recommendation:

Federal administration of risk adjustment program, at least until completion of state mandated study due December 1, 2015

Reinsurance

Parameters:

1. Temporary program
2. Operated by not for profit reinsurance entity(ies)
3. Entity collects or accepts issuer contributions for high cost enrollees in the individual market

Key Considerations:

1. Concerns about sufficiency of federal reinsurance parameters to mitigate rate impact in individual market
2. More immediate impact on market imbalances
3. Not as difficult to implement
4. Flexibility around some parameters and potential supplemental state-based funding sources

Options:

1. Federal Government can administer
2. State Government can administer
3. Federal Government can administer and State can create additional, independent, wrap-around program

Recommendation:

The State should take steps to implement a state-run reinsurance program. Details of parameters and other possible funding sources to be determined in the coming months.

Reinsurance Options: Recap

Option 1: Federal Administration

Minimum Federal Program

HHS administers and sets payment parameters and contribution levels

HHS collects and distributes funds

Funded via fee on third-party payers

Market concerns related to program sufficiency to mitigate "rate impact"

Option 2: State Administration

Option 2A (see next slide)

State Administer Program, may make some changes to Federal Parameters

State administers and can alter some parameters and/or contribution amount

HHS or State can collect fully-insured funds. HHS collects self-insured funds. State distributes funds.

Funded via fee on third-party payers

Legislation not required

Option 3: Federal Administration with State "Wrap Around"

State-based funding for additional program

Minimum Federal Program

HHS administers base program

State creates separate "wrap around" coverage

Funding source, program benefits under "wrap around" not subject to federal constraints

"Wrap around" will require legislation (timing & designated funding risk)

Reinsurance Options (Cont.)

Option 2

State Administer Program, may make some changes to Federal Parameters

Mitigates legislative timing risk, provides state some flexibility in establishing desired parameters

Funded through fee on third-party payers

Initiates analysis and determination of feasibility of program

Option 2A

Leverage add'l funding source

State Administer Program, may make some changes to Federal Parameters

Allows mandated "study" group to recommend funding & parameters

Would allow additional funding to be added to reinsurance pool and/or flexibility with other creative mitigation programs

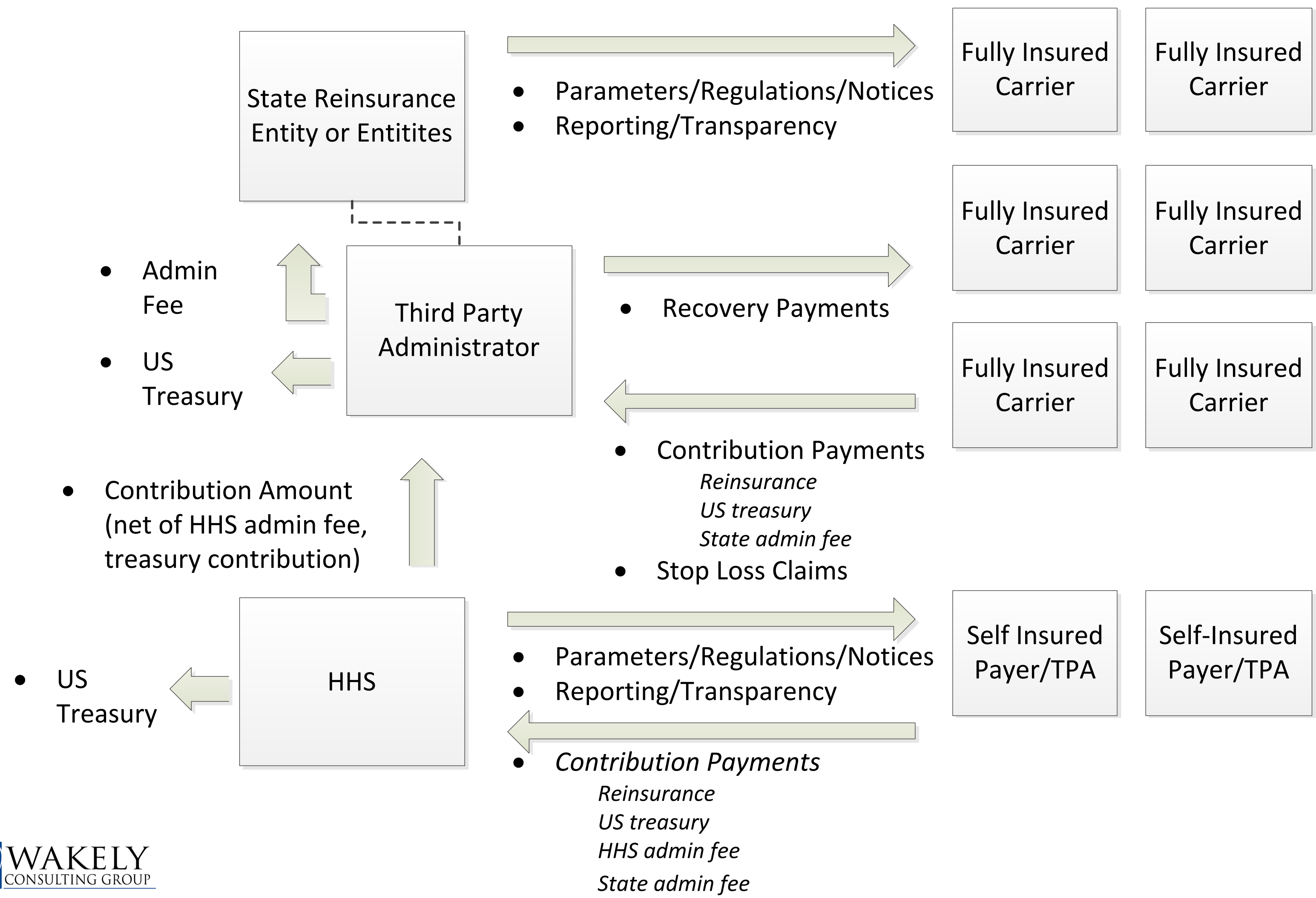
Legislation required to gain access to additional funds, creates timing risk

Operational Pros and Cons

Option 1	Option 2	Option 3
Pros: • Little to no cost to the State • National carriers deal with one entity and methodology • HHS refines parameters as appropriate **Cons:** • No state flexibility with parameters • No additional funding sources can be added • Concern from the carriers that the federal program will not be enough to mitigate projected "rate impact"	**Pros:** • Allows for state-based program in 2014 without legislation, with potential to add supplemental funding at a later date • Single source of record for purposes of settlement, payment, and reporting (vs. option 3) • Reduced complexity for issuers dealing with and accounting against a single pool of funds • State may control timing of collections, payments, and reporting **Cons:** • State must identify reinsurance entity • State must account for start up costs and manpower • State must collect contributions from fully-insured issuers to the extent contribution amount exceeds federal minimum	**Pros:** • No need to identify reinsurance entity • State gains flexibility in funding source and other requirements (possibility for creativity with solutions beyond reinsurance) • State controls all parameters and elements for "wrap around" pool **Cons:** • Creates complexity for issuers dealing with and settling against multiple programs, as well as state-based pool reconciling against federal recoveries • Requires legislation in 2013 to be effective in 2014 • No guarantee that legislature will designate funds to be used for this purpose • Only federal program can be taken into account for rates developed in 2013 as MD funding source will be uncertain

Reinsurance Operations Model

Reinsurance Pool Administration
(State-based admin option)



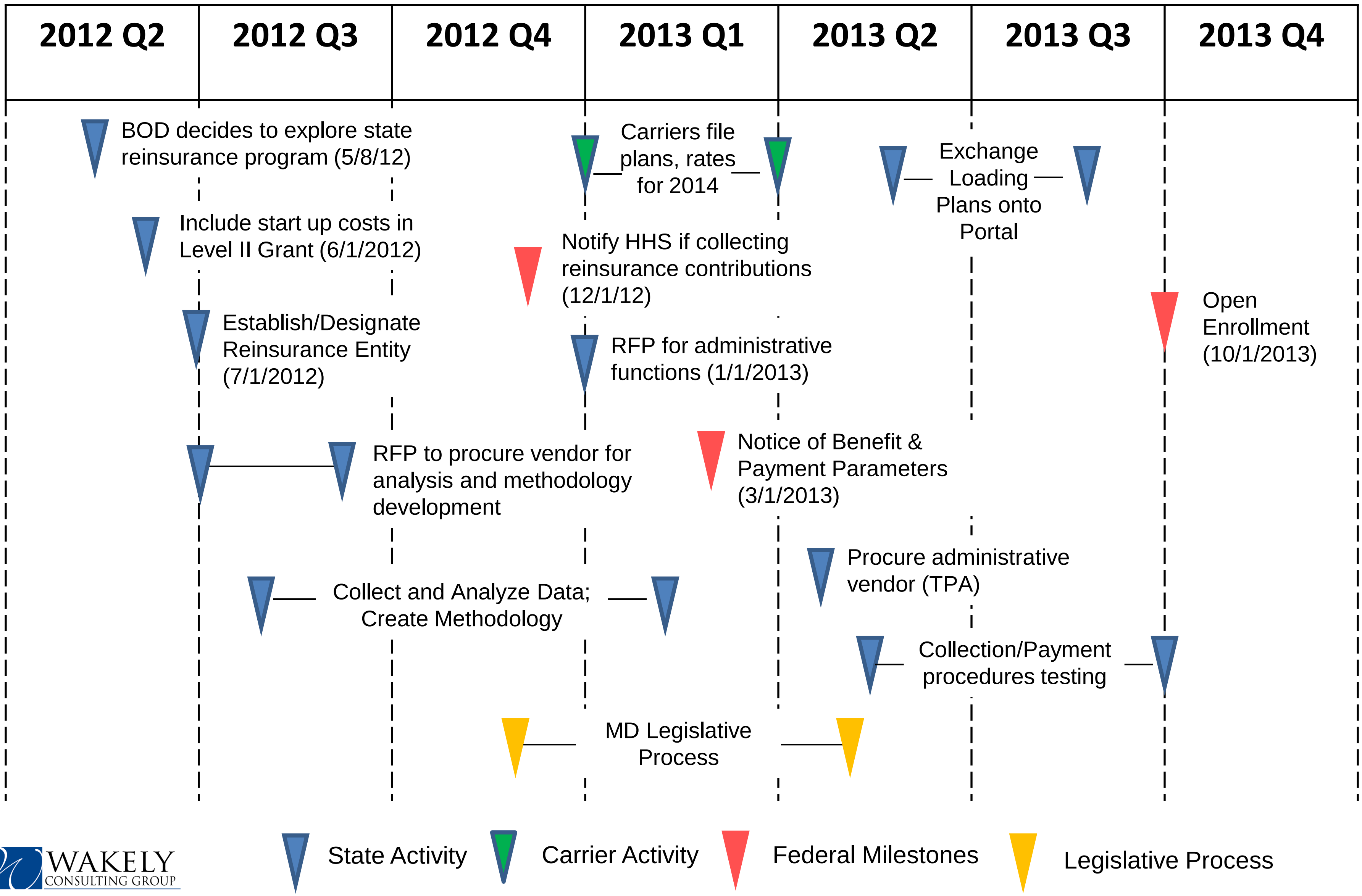
Reinsurance Establishment

1. **Identify funding for start up and analysis costs**
2. **Identify or establish non-profit reinsurance entity**
   - Policy development (establishes parameters)
   - Procure and oversee vendors (TPA, actuarial)
   - Program oversight and validation (financial reporting, program integrity)
3. **Identify and contract with actuarial vendor (optional)**
   - Support data analysis and policy and parameter development
4. **Establish program parameters**
   - Attachment point, coinsurance amount, benefit cap (if applicable)
   - May increase value beyond federal parameters
5. **Establish funding source and amount**
   - Contribution amount to finance (a) reinsurance recoveries (based upon program parameters); (b) contribution to the US Treasury; and (c) program administrative expenses

Reinsurance Establishment (cont.)

6. **Establish policies and procedures**
   - Claims reimbursement specifications
   - Financial management and reporting
   - Timing of payments and collections
   - Managing over and under collections
   - Transparency and reporting plan
   - Data review and validation
7. **Identify and contract with third party administrator**
   - Collect contributions from fully-insured plans (optional)
   - Interface with HHS for receipt of contributions from self-insured plans and distribution of collected funds to U.S. treasury
   - Receive claims for recoveries and make recovery payments
   - Provide support to payers, claimants

Reinsurance Decision Timeline



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Legislative Timeline Detail

Last day for Legislator to request pre-filed bill be drafted	**November 15, 2012**
Draft complete	**For pre-filed bill: December 5, 2012.**
Statutory deadline for Legislator to approve bill.	**December 5, 2012 for pre-filed bill. For non-pre-filed bill in Senate: February 1, 2013. For non-pre-filed bill in House: February 8, 2013.**
1st Reading of Bill	**January 9, 2013 for pre-filed bill. Anytime later for non-pre-filed bill.**
Bill Hearing:	**Anytime between January 9 and April 8**
Sine Die	**April 8, 2013**
Bill Effective Date	**Emergency Bills take effect on the date the bill is signed. Otherwise, normal effective dates are June 1, July 1, or October 1.**

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Recommendations to Board

Risk Adjustment

- Federal administration of risk adjustment program, at least until completion of state mandated study due December 1, 2015

Reinsurance

- The State should take steps to implement a state-run reinsurance program. Details of parameters and other possible funding sources to be determined in the coming months.

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